

CMBI Credit Commentary

Fixed Income Daily Market Update 固定收益部市场日报

- *Asia IG space was under one-way buying this morning, while rates stabilized from the post-CPI widening. Chinese IGs such as HAOHUA/SINOPE/TENCNT 29-30s were unchanged to 3bps tighter. CSCHCNs were traded stable between mid-20s to low-30s.*
- ***GZRF:** The missing parts of consent solicitation and exchange offers. GZRFP 25-28s were traded 0.5-0.7pt higher and stayed at single-digits since the company entered into Letter of Intent on 6 Feb '24. See below for comments.*
- ***RAKUTN:** Rakuten Group reported a 7.8% increase in FY2023 revenue to JPY2.07tn (cUSD13.81bn). RAKUTN 5.125 Perp closed 0.6pt higher this morning.*

❖ Trading desk comments 交易台市场观点

Yesterday, the overnight rates widened 10-16bps across the curve post US CPI. Market flows remained better buying from RMs/PBs. In Chinese SOE/TMT benchmarks, HAOHUA 29-30s were unchanged to 1bp tighter. BABA/TENCNT 28-31s tightened 1-3bps. In the high beta TMTs, there were active two-way flows on LENOVO/XIAOMI/WB 30s. In financials, the belly of Chinese leasing names/AMCs were under better buying. BOCAVI/CCACML 26-28s were 1-3bps tighter. Meanwhile HRINTH 30s were under better selling and closed 0.1-0.2pt lower (5-10bps wider). In KR space, KDB 27/29 closed unchanged to 2bps tighter. There were balanced two-way flows on HYUELE/DAESEC 27-29s. KIAMTR/KOSOPW/DFHOLD/CITNAT/HYNMTR 26s were under better selling. AU bank T2s such as ANZ '27/WSTP '30 were under better buying and tightened 1-3bps. In AT1s, BOCOM/CINDBK Perps were unchanged to 0.1pt lower. Thai/EU AT1s BBLTB 5 Perp/KBANK 4 Perp/UBS 9.25 Perp were down 0.1-0.2pt in light of rates widening. HK space was mixed. CASHLD/LEEMAN/PEAKRN Perps were 0.5-0.9pt higher. However, LASUDE '26 was down 1.7pts and SHUION 24-26s lowered 0.3pt. Chinese properties moved lower. CSCHCN 24s closed 12.9-16.3pts lower and CSCHCN '27 dropped 11.6pts post the announcement of failure to meet amortization and coupon payments. VNKRLE 24-29s were 0.8-1.9pts lower. LNGFOR 27-32s were down 0.4-0.7pt. DALWAN/CHJMAO 24-26s were down 0.3-0.4pt. PINGRE '24/ROADKG '26 were among the exceptions to close 0.8pt higher. Outside properties, HILOHO '24/SFHOLD '30 were 0.3-0.5pt higher whilst EHICAR/WESCHI 26s were 0.5-0.6pt lower. Macau gaming names such as MPEL/STCITY 26-30s were 0.4-0.7pt higher. In Indian space, VEDLNs closed 0.4-1.1pts lower after gaining 0.8-1.6pts last Friday. Renewables GRNKENS/RPVINs were down 0.3-0.5pt. Indonesian SOEs such as IDASALs/PLNIJs were 0.6-1.1pts lower amid higher rates. Elsewhere, GLPCHI '26 declined 0.8pt.

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The LGFVs/perps/high beta names were skewed to better selling. In the 5-6% LGFVs, GZGETH/NJYZSO 27s and HZCONI/YWSOAO 25-26s were 0.1-0.3pt lower. Shandong names were mixed. SDGOLD '24/SDEC DI '26 were up 0.1pt. On the other hand, QDHTCO/SHUGRP 24s and HKIQCL '25/SHGUOH '26 were down 0.1-0.3pt. SOE perps were also mixed. CHPWCN 4.3 Perp/RLCONS 3.97 Perp were c0.1pt higher, whilst CHPWCN 3.08 Perp/CHSCOI 3.4 Perp were down 0.1pt. In the high-beta names, SUNSHG/ZHONAN 26s were 0.1pt higher.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CASHLD 4 PERP	88.1	0.9	CSCHCN 9 06/26/24	26.4	-16.3
ROADKG 5.2 01/12/26	30.4	0.8	CSCHCN 9 04/12/24	30.4	-15.8
PINGRE 2 3/4 07/29/24	95.0	0.8	CSCHCN 9 10/09/24	26.2	-13.8
PEAKRN 5.35 PERP	92.0	0.7	CSCHCN 9 12/11/24	26.1	-12.9
STCITY 6 1/2 01/15/28	94.8	0.7	CSCHCN 4 1/2 08/19/27	26.6	-11.6

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.96%), Dow (+0.40%) and Nasdaq (+1.30%) closed higher on Wednesday. Fed Vice Chair for Supervision Michael Barr said the Fed needs to see more data indicating inflation is heading back to 2% before it starts cutting rates. US dollar index pulled back from the 3-month high to close at 104.71. The overnight UST yields retreated yesterday, 2/5/10/30 yield reached 4.56%/4.25%/4.27%/4.45%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ GZRF: The missing parts of consent solicitation and exchange offers

The LOI in essence

Further to our write-up on GZRF's LOI to sell ONE Nine Elms, the London mixed-use development project, we have a few discussions with clients on the rationale of the sale and implication to USD bondholders. In essence, the LOI is for GZRF to sell ONE Nine Elms to a wholly owned SPV of CHEUNG Chung Kiu, in return, the SPV will assume USD bonds of at least USD800mn issued by GZRF. The USD bonds will be exchanged into perps issued by the SPV and the perps will be backed by cash flow from ONE Nine Elms.

Is the sale positive or negative for USD bondholders?

Bond	ISIN	o/s amount (USD mn)	Ask Price	Ask YTM
GZRFPR 6 ½ 07/11/25	XS2495355674	1,443	6.8	1,586.2%
GZRFPR 6 ½ 07/11/27	XS2495358009	2,461	7.1	215.6%
GZRFPR 6 ½ 07/11/28	XS2495359403	1,793	6.9	169.8%
		5,698		

There remain many missing parts of the consent solicitation and exchange offers to determine if the potential sale of One Nine Elms is good or bad for USD bondholders. Nonetheless, completion of the project have already been delayed from Nov'23 to Apr'24. Given the tight liquidity of GZRF, the project may not be completed as scheduled and GZRF could default on the project loans. This will adversely affected the recovery rate of GZRF's USD bonds. Regarding whether the sale is fairly priced, a good gauge would be GZRF's sale of its 50% stakes in an adjacent JV project with CC Land (also owned by Cheung) for HKD2.7bn in Apr'22. This translated into an

AV of cHKD3,200/sq ft. The minimum consideration of the sale of ONE Nine Elms is USD800mn (HKD6.2bn), translating into an AV of cHKD5,100/sq ft.

We believe that obtaining bondholders' approval could be challenging if the asset sale, the consent and exchange offers are not structured in a way which is beneficial to bondholders, especially GZRFPRs are trading at distressed prices of only 6-7pts and the opportunity cost for USD bondholders to say "no" is limited. The approval threshold for the consent should be the same as that of the consent in Jun'22, i.e. 75% of holders in principal amount in EGM with a meeting quorum of 66% of holders in principle amount of each USD bonds. Li Sze Lim and his family own 0.9%, 0.5% and 7.4% of the o/s amount of the bonds due 2025, 2027 and 2028, respectively. The ownership, if any, of Cheung and his family in GZRFPRs is not disclosed.

What are the major missing parts?

1. The structure, terms and ranking of various perps

We have numerous questions but the key one is "and" or "or"? Do bondholders have to participate into the exchanges of Tranche B1 and B2 and A and C? Or they can choose to participate into one or more than one tranches? Is cash consideration subscription for Tranche A only reserved for subscribers of Tranche B2? What will be the major differences amongst the terms of various tranches? We believe that bondholders can exchange the USD bonds into one or more than one tranches of perps at their discretion. The terms for Tranches A and C would be more favourable given the requirements of additional cash contribution.

2. Any cap on the exchange?

A minimum of USD800mn bond exchange mentioned throughout the press release on 6 Feb'24. However, will the exchange be capped? As disclosed in the press release, the carry value of the project as of Dec'23 was only HKD3.2bn (cUSD405mn), excluding the development and property value totaled HKD23.4bn (cUSD3bn). If the perps are properly structured such that cash flow and value of the project are "ring-fenced" for the perps holders, we would argue that the higher the cap (up to the fair residual value of the project), the less likelihood of the sale of ONE Nine Elms will damage the recovery value of USD bondholders.

3. What are the debt level at ONE Nine Elms?

As per the consent solicitation memorandum in Jun'22, the project loan at ONE Nine Elms was GBP772mn, GBP130mn was drawn for debt repayment and the final maturity was Jun'26. We would need to find out the total debt level at the project level to estimate the residual value of the project for USD bondholders. The exchange will raise GBP820mn and USD200mn. We expect these to be used to settle project loans and capex required to complete the project. We also need to find out what will be the plan B if the exchange fails to raise the targeted amount.

4. Cheung and his family's ownership of GZRFPRs

Whether and how much Cheung and his family own GZRFs are not disclosed. We would need to find out how much influence he and his family have on the consent solicitation process, and whether they will abstain from voting in consent solicitation.

➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
No Offshore Asia New Issues Priced Today					

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating
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No Offshore Asia New Issues Pipeline Today

➤ News and market color

- Regarding onshore primary issuances, there were 0 credit bonds issued yesterday with an amount of RMB0bn. As for month-to-date, 370 credit bonds were issued with a total amount of RMB393bn raised, representing a 10% yoy decrease
- [ADSEZ/ADTIN/ADANIG/ADGREG/ADANEM/ADINCO]** Moody's changed the outlooks on four issuers under Adani Group (Adani Green Energy Ltd, Adani Green Energy Restricted Group RG1, Adani Transmission Step-One Ltd, Adani Electricity Mumbai) to stable from negative, and maintained the stable outlook on the other four companies (Adani Ports and Special Economic Zone, Adani Energy Solutions Ltd, Adani Green Energy Restricted Group RG2, Adani International Container Terminal Private Ltd)
- [EHICAR]** Fitch downgraded eHi Car Services to 'CCC+', from 'B-'; ratings removed from Watch Negative
- [RAKUTN]** Rakuten Group reported a 7.8% increase in FY2023 revenue to JPY2.07tn (USD13.81bn) on stronger internet service, fintech, and mobile businesses
- [VEDLN]** Media reported Vedanta Resources is in discussions for selling the partial stakes in Vedanta to GQG Partners for around USD1bn

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